

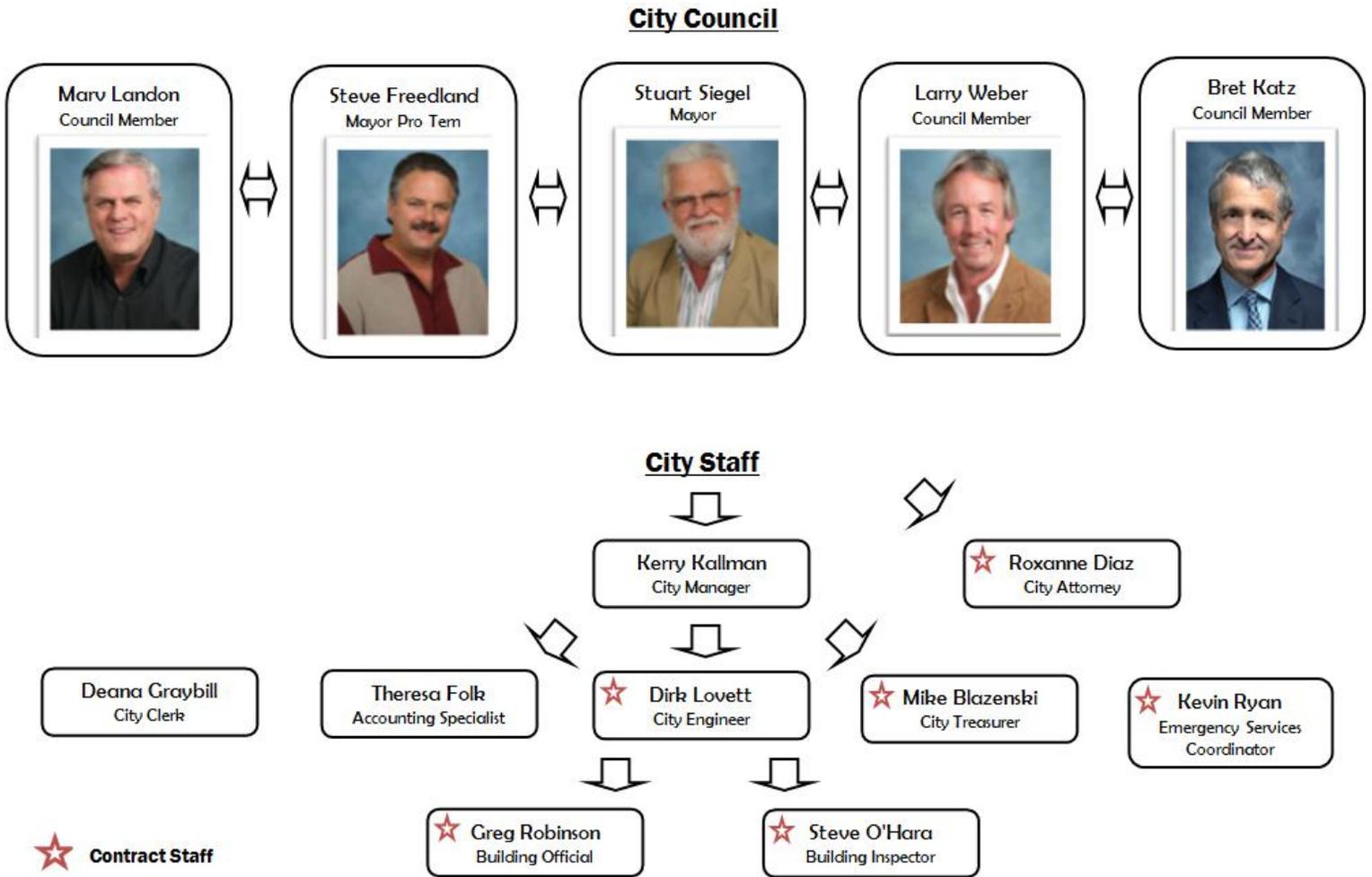


**CITY OF HIDDEN HILLS**  
**ANNUAL BUDGET**  
**FISCAL YEAR 2017 - 18**

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# Organizational Chart



To: Honorable Mayor and City Council  
From: Kerry Kallman, City Manager  
Subject: 2017/18 Fiscal Year Budget  
Date: May 2017

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## **INTRODUCTION**

Attached for the City Council's review and consideration is the proposed City budget for Fiscal Year 2017/18. The budget development process begins in January with the Mid-year budget review. The Mid-year budget takes a detailed look at all City revenues and expenditures at the half-way point of the current fiscal year. Additionally, the Mid-year budget attempts to forecast the final revenue and expenditure amounts expected at the close of the fiscal year on June 30. Following the Mid-year budget, staff began preparations on the upcoming fiscal year budget. For the first time, the City Council hosted a City Council Goals Session on April 24 which identified and prioritized the City's work plan for the upcoming Fiscal Year 2017/18. This exercise provided guidance to staff to craft the upcoming budget. Next, the City Council's Budget Ad-hoc Committee met on May 24 to review the draft budget prior to consideration by the full City Council tonight.

The budget document is broken up into several sections. These include Revenue, Expenditures, Summary of Restricted Funds, Gann Appropriations limit, City Investment Policy, Current Staffing Levels, and a Fiscal Health Report.

The City's budget should be seen as a "spending" plan and a "living" document for the upcoming fiscal year. Although not ideal, nor planned, deviations from this plan can and will arise during the upcoming fiscal year. These changes, if any, will require the approval of a "budget adjustment" by the City Council and will be requested if needed.

## **BUDGET HIGHLIGHTS**

Staff continued to adhere to the City's long standing tradition of taking a conservative approach to both revenue and expenditure predictions. This approach has been beneficial to ensure the continued strength of the City's finance. Consequently, the City of Hidden Hills continues to remain fiscally sound due to the prudent and conservative planning of the City Council. The FY 2017/18 includes revenues of \$2,252,300 with corresponding expenditures of \$2,101,950. Property Tax revenue continues to be the City's largest single source of revenue representing 41% of all City revenue. Conversely, Public Safety remains the City's largest expenditure of \$560,000 or 27% of all expenditures.

## **REVENUE**

Total revenue for FY 2017/18 is \$2,252,300. While this is significantly higher than FY 2016/17's budgeted revenue of \$2,016,200 several factors discussed in detail below led to this higher projected revenue. Revenue is collected in the following eight categories:

### Property Tax Revenue

As stated previously stated, property tax continues to be the City's largest single revenue source. Property tax revenue continues to grow within the City and staff sees no indications in a change in this trend.

### Other Local Taxes

Other local revenue includes Real Property Transfer taxes and a small amount of sales tax collected.

### Interest Income

Revenue generated from the City's investment in the Local Agency Investment Fund and with Charles Schwab.

### Other Taxing Entities

Other Taxing Entities is expected to be slightly higher this year based on the FY 2016/17 projection. Revenue is generated from the State's Motor Vehicle in Lieu Tax swap which sees motor vehicle license fees used to backfill property taxes in local jurisdictions.

### Building and Safety

Revenue for this department is received for building plan check review and building permits for new single family homes, remodels, and additions. A portion of this revenue is used to offset Charles Abbott and Associates costs to perform these services under a contract with the City.

### COPS Fund

COPS funds are provided to the City annually from the State's General fund to provide supplemental front-line law enforcement services. The City is expected to receive \$100,000 this year from the COPS fund. COPS fund revenue is showing in the City's General Fund revenue as a transfer to off-set the inclusion of COPS funded expense in the Public Safety Department.

### Fiesta

The 2016 Annual Fiesta was one of the more successful fiesta's to date. Revenue for FY 2017/18 is expected to be similar to 2016.

### Other Revenue

This revenue category is a catch all for uncategorized revenue sources for the City such as alarm registrations, investment fees, and franchise fees.

## **EXPENDITURES**

Total expenditures for FY 2017/18 are anticipated to be \$2,101,950. This is an increase of approximately \$282,100 from the current fiscal year budget. These increases can be attributed to two main factors: (1) budgeting of the true cost to for police protection services to include those costs offset by COPS funds; and (2) the creation of a capital improvement budget for necessary repairs and upgrades to City Hall. These costs are discussed in more detail below. Expenditures are broken down into the following categories:

### Payroll

Total expense for the City's payroll is expected to be \$379,300 which is a little over \$83,000 less than FY 2016/17. This costs saving can be attributed to the recent retirement of two long-time key employees.

### Administration

Expenses associated with the City's Administration Department are higher (\$67,850) than the current fiscal year. This increase can be attributed to several factors: (1) increased liability insurance rate; (2) increased Office Supplies/Expense due to potential office upgrade purchases; (3) increase utilities costs an adjustment to the true costs from the previous fiscal year; (4) including Schwab service charges in this year's budget; and (5) anticipated legal expenses.

### Public Safety

Costs associated with Public Safety are expected to be significantly higher than the FY 2016/17 budget. Expenses associated with the Police/Star line item show an increase of \$191,000. This is mainly due to an administrative decision to show the true costs associated with the City's contract with the Los Angeles County Sheriff's Department. Law enforcement services in the City are funded by two primary revenue sources, the general fund and the COPS restricted fund. Each year, the City receives approximately \$100,000 from the state's COPS fund. The City uses its share of COPS funds to subsidize law enforcement services. This year, staff elected to show the true expense of law enforcement services including those offset by COPS funds. COPS funds are also shown on the City's revenue projection to offset this expense. It should be noted that the current fund balance for COPS funds is approximately \$97,560. In addition law enforcement services with the Los Angeles County Sheriff's Department increased by 3.8% for FY 2017/18 and the liability trust fund surcharge increased by 0.5%. Finally, staff has budgeted an additional \$20,000 that could be used with City Council approval for special operations (undercover, burglary suppression, ATV patrols) if needed.

### Building and Safety

Expenses in this department are categorized two ways: (1) fee related; and (2) non-fee related. Fee related expenses are fully offset by plan check and building permit revenue. Non fee related expenses include the administration of the department such as special projects, public information, and capital improvements.

### Maintenance

There are no significant changes in the Maintenance Department expense.

### Fiesta

There are no significant changes in the Fiesta Department expense.

### Capital Improvement Projects

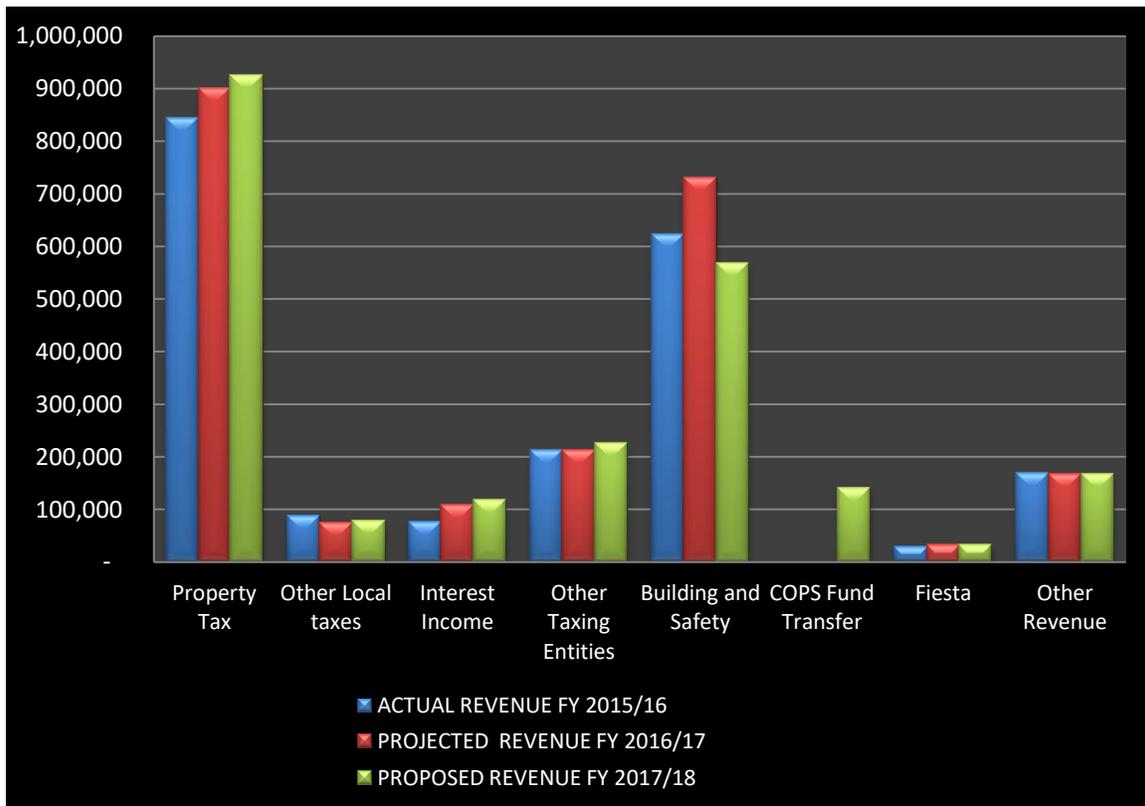
This new expense department has been created for inclusion in the Fiscal Year 2017/18 City budget. At the City Council Goals several capital expenditures were approved in concept. These include improvements/upgrades to the City Hall building, repairs and upgrades to the equipment used to broadcast City Council meetings and additional potential technology upgrades. In addition, \$40,000 has been allocated for a potential storm water run-off project at a catch basin near Jim Bridger.

### **ADDITIONAL BUDGET-RELATED DOCUMENTS**

In addition to the preliminary City budget, others items of interest attached include the following: (1) information pertaining to the City's proposed FY 2017/18 Gann Appropriations Limit; (2) listing of full-time staff positions contained in the City budget; (3) matrix of City restricted funds; and (4) "Fiscal Health Report" examining the City's financial condition in the General Fund.

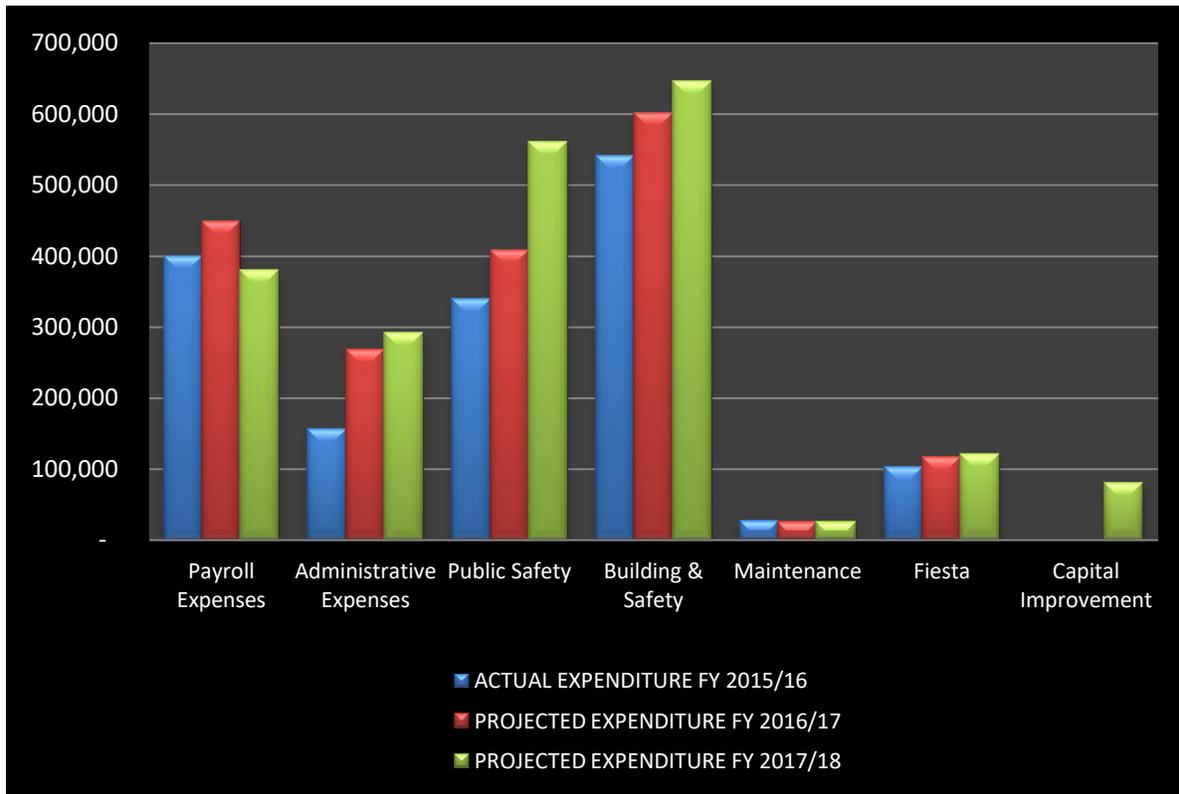
## Revenue Projection FY 2017/18 vs. Prior Years

<u>Revenue Source</u>	ACTUAL REVENUE FY 2015/16	PROJECTED REVENUE FY 2016/17	PROPOSED REVENUE FY 2017/18
Property Tax	844,418	900,000	925,000
Other Local taxes	87,828	75,000	78,000
Interest Income	75,156	108,100	117,000
Other Taxing Entities	211,806	212,000	225,000
Building and Safety	622,496	729,000	568,000
COPS Fund Transfer	-	-	140,000
Fiesta	28,146	32,300	32,300
Other Revenue	168,749	166,800	167,000
<b>Total Revenue</b>	<b>2,038,599</b>	<b>2,223,200</b>	<b>2,252,300</b>



## Expenditure Projection FY 2017/18 vs. Prior Years

<u>Expenditures</u>	ACTUAL EXPENDITURE FY 2015/16	PROJECTED EXPENDITURE FY 2016/17	PROJECTED EXPENDITURE FY 2017/18
Payroll Expenses	399,221	448,500	379,300
Administrative Expenses	155,039	268,000	291,550
Public Safety	340,181	408,820	560,000
Building & Safety	540,983	600,000	646,100
Maintenance	26,669	24,500	25,000
Fiesta	103,093	116,500	120,000
Capital Improvement	-	-	80,000
<b>Total Expenditures</b>	<b>1,565,187</b>	<b>1,866,320</b>	<b>2,101,950</b>



## Revenue Summary Comparison

### PROPOSED REVENUE FY 2017/18

Revenue Source	% of Total	Amount
Property Tax	41.1%	925,000
Other Local Taxes	3.5%	78,000
Interest Income	5.2%	117,000
Other Taxing Entities	10.0%	225,000
Building and Safety	25.2%	568,000
COPS Fund Transfer	6.2%	140,000
Fiesta	1.4%	32,300
Other Revenue	7.4%	167,000
<b>Total Revenue</b>	<b>100.0%</b>	<b>2,252,300</b>

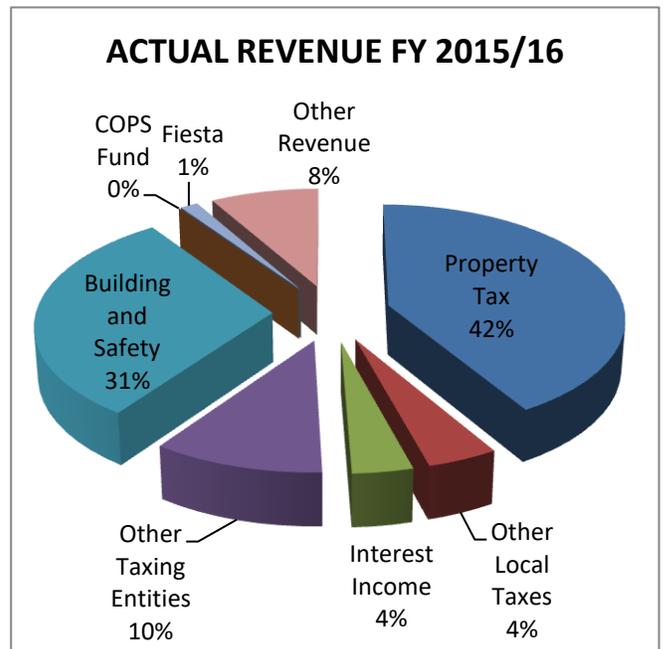
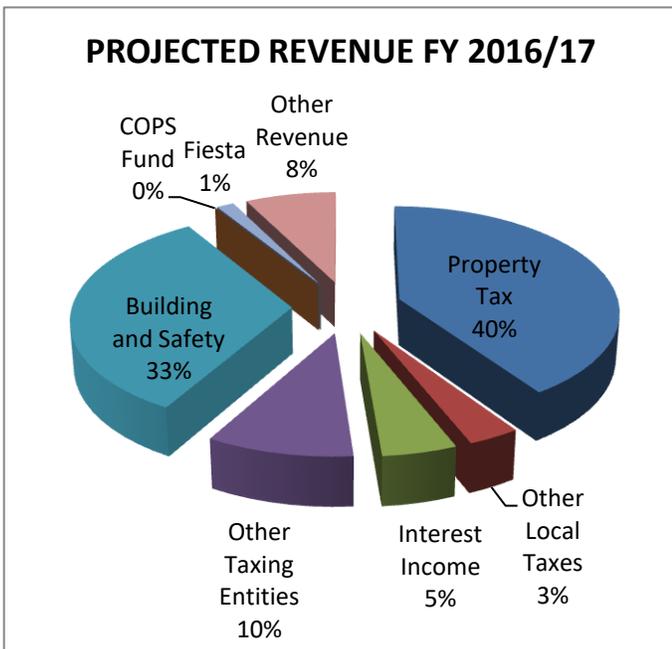
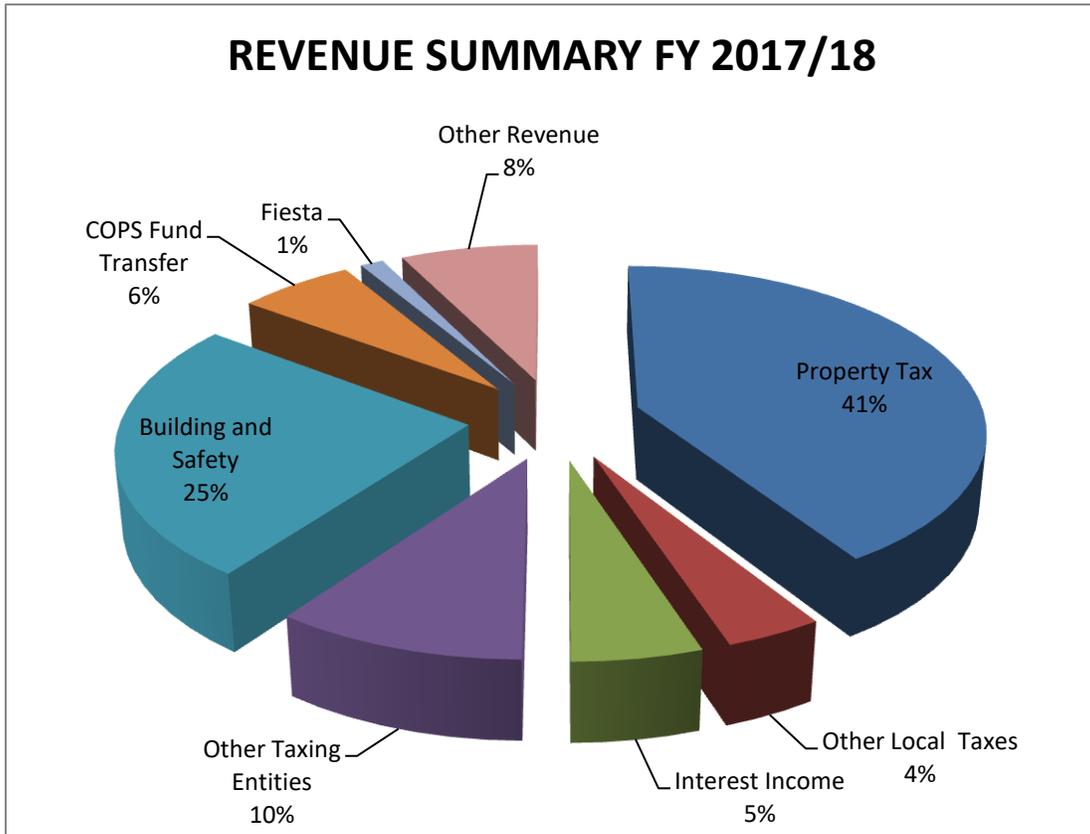
### PROJECTED REVENUE FY 2016/17

Revenue Source	% of Total	Amount
Property Tax	40.5%	900,000
Other Local Taxes	3.4%	75,000
Interest Income	4.9%	108,100
Other Taxing Entities	9.5%	212,000
Building and Safety	32.8%	729,000
COPS Fund Transfer	0.0%	-
Fiesta	1.5%	32,300
Other Revenue	7.5%	166,800
<b>Total Revenue</b>	<b>100.0%</b>	<b>2,223,200</b>

### ACTUAL REVENUE FY 2015/16

Revenue Source	% of Total	Amount
Property Tax	41.4%	844,418
Other Local Taxes	4.3%	87,828
Interest Income	3.7%	75,156
Other Taxing Entities	10.4%	211,806
Building and Safety	30.5%	622,496
COPS Fund Transfer	0.0%	-
Fiesta	1.4%	28,146
Other Revenue	8.3%	168,749
<b>Total Revenue</b>	<b>100.0%</b>	<b>2,038,599</b>

# Annual Revenue Share Chart



## Expenditure Summary Comparison

### PROPOSED EXPENDITURES FY 2017/18

Expenditures	% of Total	Amount
Payroll Expenses	18.0%	379,300
Administrative Expenses	13.9%	291,550
Public Safety	26.6%	560,000
Building & Safety	30.7%	646,100
Maintenance	1.2%	25,000
Fiesta	5.7%	120,000
Capital Improvement	3.8%	80,000
<b>Total Expenditures</b>	<b>100.0%</b>	<b>2,101,950</b>

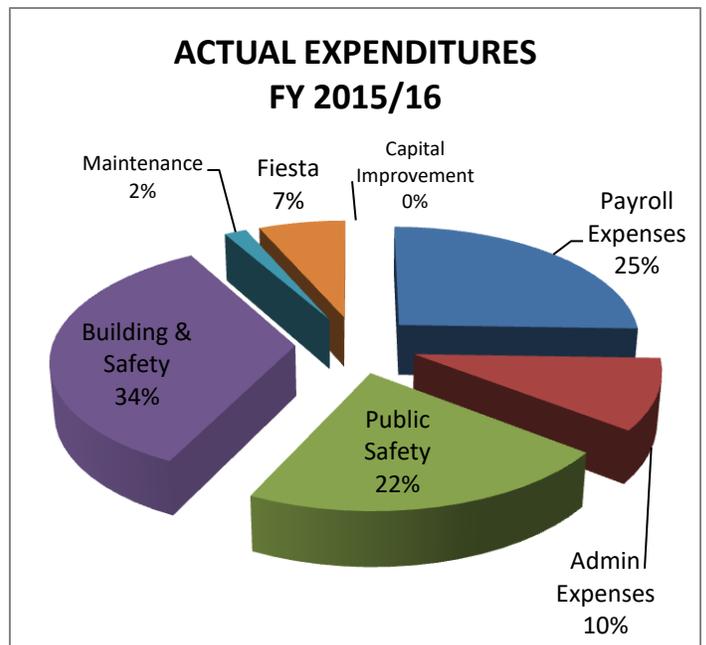
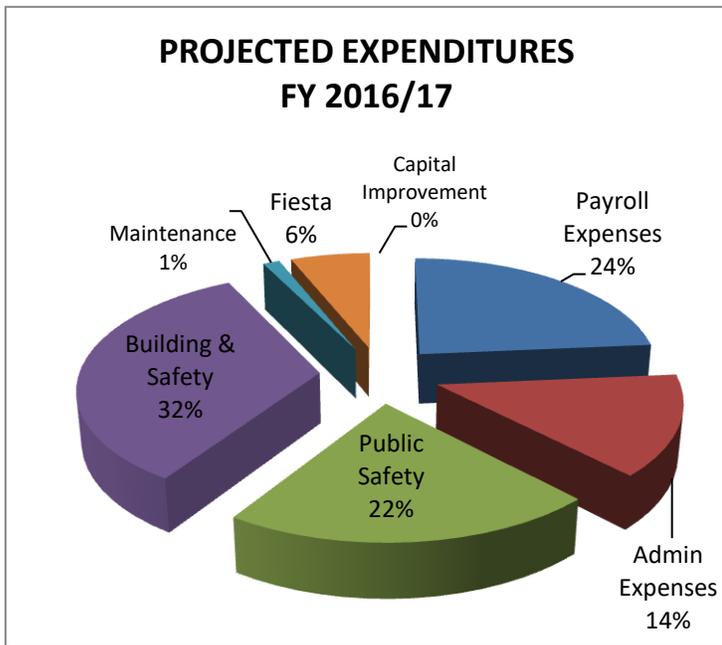
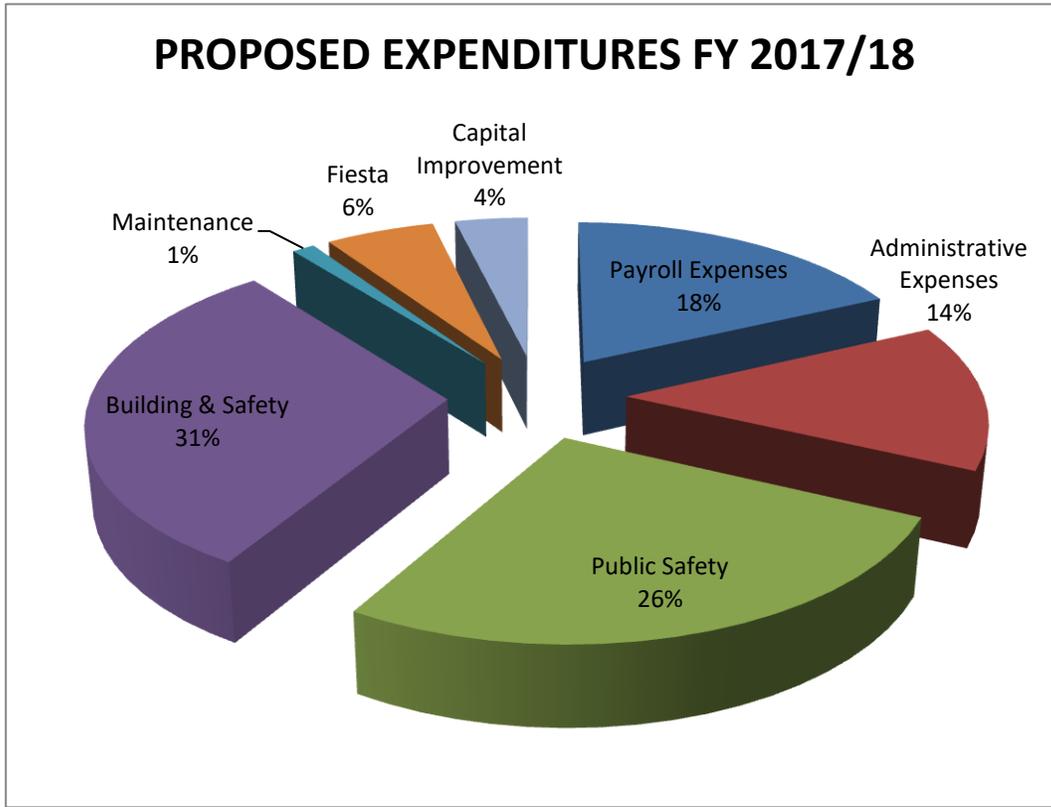
### PROJECTED EXPENDITURES FY 2016/17

Expenditures	% of Total	Amount
Payroll Expenses	24.0%	448,500
Administrative Expenses	14.4%	268,000
Public Safety	21.9%	408,820
Building & Safety	32.1%	600,000
Maintenance	1.3%	24,500
Fiesta	6.2%	116,500
Capital Improvement	0.0%	-
<b>Total Expenditures</b>	<b>100.0%</b>	<b>1,866,320</b>

### ACTUAL EXPENDITURES FY 2015/16

Expenditures	% of Total	Amount
Payroll Expenses	25.5%	399,221
Administrative Expenses	9.9%	155,039
Public Safety	21.7%	340,181
Building & Safety	34.6%	540,983
Maintenance	1.7%	26,669
Fiesta	6.6%	103,093
Capital Improvement	0.0%	-
<b>Total Expenditures</b>	<b>100.0%</b>	<b>1,565,187</b>

## Annual Expenditure Share Chart



**City of Hidden Hills**  
**General Fund Budget Summary**  
**FY 2017/18**

	Mid Year Actual FY 2016-17	Year End Projection FY 2016-17	Adopted Budget FY 2016-17	Variance FY 2016-17	Budget FY 2017-18
<b>Revenues</b>					
Property Tax	470,000	900,000	900,000	-	925,000
Other Local taxes	50,500	75,000	80,000	(5,000)	78,000
Interest Income	42,500	108,100	72,000	36,100	117,000
Other Taxing Entities	113,000	212,000	180,000	32,000	225,000
Building and Safety	316,000	729,000	577,000	152,000	568,000
Fiesta	32,300	32,300	31,000	1,300	32,300
Other Revenue	37,685	166,800	176,200	(9,400)	167,000
<b>Total Revenue</b>	<b>1,061,985</b>	<b>2,223,200</b>	<b>2,016,200</b>	<b>207,000</b>	<b>2,112,300</b>
Transfer from COPS Fund	-	-	-	-	140,000
<b>Total Revenues &amp; Transfers</b>	<b>1,061,985</b>	<b>2,223,200</b>	<b>2,016,200</b>	<b>207,000</b>	<b>2,252,300</b>
<b>Expenses</b>					
Payroll Expenses	289,800	448,500	462,900	(14,400)	379,300
Administrative Expense	156,400	268,000	223,700	44,300	291,550
Public Safety	152,680	408,820	359,000	49,820	560,000
Building & Safety	242,000	600,000	629,750	(29,750)	646,100
Maintenance	16,900	24,500	24,500	-	25,000
Fiesta	116,500	116,500	120,000	(3,500)	120,000
Capital Improvement	-	-	-	-	80,000
<b>Total Expense</b>	<b>974,280</b>	<b>1,866,320</b>	<b>1,819,850</b>	<b>46,470</b>	<b>2,101,950</b>
<b>Excess of Revenues Over/ Under Expenditures</b>	<b>87,705</b>	<b>356,880</b>	<b>196,350</b>	<b>160,530</b>	<b>150,350</b>

**City of Hidden Hills**  
**General Fund Budget Details**  
**FY 2017/18**

	Mid Year Actual FY 2016-17	Year End Projection FY 2016-17	Adopted Budget FY 2016-17	Variance FY 2016-17	Budget FY 2017-18
<b>Revenues</b>					
<b>Property Tax</b>					
Secured Property Tax	470,000	900,000	900,000	-	925,000
<b>Other Local taxes</b>					
Real Property Transfer Tax	48,300	65,000	70,000	(5,000)	70,000
Sales & Use Tax	2,200	10,000	10,000	-	8,000
<b>TOTAL -Local Taxes</b>	<b>50,500</b>	<b>75,000</b>	<b>80,000</b>	<b>(5,000)</b>	<b>78,000</b>
<b>Interest Income</b>					
Charles Schwab	34,300	95,000	60,000	35,000	105,000
LAIF & Banks	8,200	13,100	12,000	1,100	12,000
<b>TOTAL - Interest Income</b>	<b>42,500</b>	<b>108,100</b>	<b>72,000</b>	<b>36,100</b>	<b>117,000</b>
<b>Other Taxing Entities</b>					
Motor Vehicle In Lieu	113,000	212,000	180,000	32,000	225,000
<b>Building and Safety</b>					
Engineering Fees	-	-	3,000	(3,000)	2,000
Building & Safety Permits	306,500	550,000	450,000	100,000	475,000
Planning Fees	7,500	174,000	116,000	58,000	85,000
Environmental Fees	2,000	5,000	8,000	(3,000)	6,000
<b>TOTAL - Building &amp; Safety</b>	<b>316,000</b>	<b>729,000</b>	<b>577,000</b>	<b>152,000</b>	<b>568,000</b>
<b>Fiesta</b>					
	32,300	32,300	31,000	1,300	32,300
<b>Other Revenue</b>					
PSAF Revenue	10,644	17,000	17,000	-	15,000
Alarm Registration	1,140	7,500	7,200	300	7,000
Franchise Fees - Cable	4,408	10,500	9,000	1,500	9,000
Franchise Fees - Gas	-	10,800	11,000	(200)	11,000
Franchise Fees - Waste Hauler	14,643	50,000	60,000	(10,000)	60,000
Waste Management Fee	2,015	8,000	8,000	-	8,000
Business License	4,749	62,000	62,000	-	55,000
Miscellaneous Income	86	1,000	2,000	(1,000)	2,000
<b>TOTAL - Other Revenue</b>	<b>37,685</b>	<b>166,800</b>	<b>176,200</b>	<b>(9,400)</b>	<b>167,000</b>
<b>Total Revenue</b>	<b>1,061,985</b>	<b>2,223,200</b>	<b>2,016,200</b>	<b>207,000</b>	<b>2,112,300</b>
<b>Transfer from COPS Fund</b>					
	-	-	-	-	140,000
<b>Total Revenues &amp; Transfers</b>	<b>1,061,985</b>	<b>2,223,200</b>	<b>2,016,200</b>	<b>207,000</b>	<b>2,252,300</b>

	Mid Year Actual FY 2016-17	Year End Projection FY 2016-17	Adopted Budget FY 2016-17	Variance FY 2016-17	Budget FY 2017-18
<b>Expenditures</b>					
<b>Payroll Expenses</b>					
City Manager Salary	83,500	83,500	77,500	6,000	128,600
CM Car Allowance	2,000	2,900	3,200	(300)	2,400
CC Secretary	800	1,200	2,000	(800)	-
City Clerk	41,200	67,800	68,000	(200)	73,000
City Manager 2	44,800	91,900	100,000	(8,100)	-
Accounting Specialist	52,100	88,000	96,000	(8,000)	68,000
Group Insurance	16,200	27,000	30,000	(3,000)	35,100
Dental/Vision	1,800	3,200	3,200	-	3,500
Workers Comp	3,000	7,000	7,000	-	5,000
Payroll tax expense	5,300	12,000	12,000	-	9,300
PERS	32,100	52,000	52,000	-	38,000
PERS Unfunded	7,000	12,000	12,000	-	16,400
<b>TOTAL - Payroll Expenses</b>	<b>289,800</b>	<b>448,500</b>	<b>462,900</b>	<b>(14,400)</b>	<b>379,300</b>
<b>Administrative Expense</b>					
Legal	38,100	60,000	60,000	-	80,000
Auditor	25,200	32,000	32,000	-	34,000
LVMCOG	20,000	40,000	20,000	20,000	25,000
Dues	5,900	6,500	4,000	2,500	7,000
Liability insurance	9,200	9,200	10,000	(800)	14,200
Blanket Fidelity Bond	700	700	700	-	750
Property Insurance	4,100	4,100	6,000	(1,900)	5,000
Election	600	3,500	10,000	(6,500)	500
Office Supplies/Expense	14,400	22,000	22,000	-	25,000
Telephone	1,700	6,000	6,000	-	6,000
Utilities	13,200	19,000	15,000	4,000	19,000
Newsletter	2,700	8,000	7,000	1,000	17,100
Community Assistance	-	15,000	15,000	-	15,000
Data Processing/IT Support	6,000	12,000	12,000	-	12,000
Schwab Service Charges	12,600	25,000	-	25,000	25,000
Travel/Meetings	2,000	5,000	4,000	1,000	6,000
<b>TOTAL - Admin Expenses</b>	<b>156,400</b>	<b>268,000</b>	<b>223,700</b>	<b>44,300</b>	<b>291,550</b>

	Mid Year Actual FY 2016-17	Year End Projection FY 2016-17	Adopted Budget FY 2016-17	Variance FY 2016-17	Budget FY 2017-18
<b>Expenditures</b>					
<b>Public Safety</b>					
Police/Star	118,100	290,000	280,000	10,000	471,000
Emergency Services/ Disaster Prep	2,300	45,600	7,600	38,000	7,500
Emergency Services Coordinator	13,700	25,000	25,000	-	25,000
School Crossing Guard	13,600	34,000	27,000	7,000	35,100
Before School Aid	2,700	6,500	13,000	(6,500)	13,000
Secretarial Services	280	1,120	1,400	(280)	1,400
Animal Control	2,000	6,600	5,000	1,600	7,000
<b>TOTAL - Public Safety</b>	<b>152,680</b>	<b>408,820</b>	<b>359,000</b>	<b>49,820</b>	<b>560,000</b>
<b>Building &amp; Safety</b>					
Engineering	37,900	75,000	88,950	(13,950)	90,300
Building and Safety	132,900	290,000	279,800	10,200	287,000
Planning	11,900	100,000	125,800	(25,800)	102,000
NPDES	59,300	135,000	135,200	(200)	166,800
<b>TOTAL - Building &amp; Safety</b>	<b>242,000</b>	<b>600,000</b>	<b>629,750</b>	<b>(29,750)</b>	<b>646,100</b>
<b>Maintenance</b>					
Janitorial	6,200	10,500	10,500	-	11,000
Garden Service	3,500	2,000	2,000	-	2,000
Street Cleaning	1,200	2,000	2,000	-	2,000
Repairs/Maintenance	6,000	10,000	10,000	-	10,000
<b>TOTAL - Maintenance</b>	<b>16,900</b>	<b>24,500</b>	<b>24,500</b>	<b>-</b>	<b>25,000</b>
<b>Fiesta</b>	<b>116,500</b>	<b>116,500</b>	<b>120,000</b>	<b>-</b>	<b>120,000</b>
<b>Capital Improvement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80,000</b>
<b>Total Expenditures</b>	<b>974,280</b>	<b>1,866,320</b>	<b>1,819,850</b>	<b>46,470</b>	<b>2,101,950</b>
<b>Excess of Revenues Over/ Under Expenditures</b>	<b>87,705</b>	<b>356,880</b>	<b>196,350</b>	<b>160,530</b>	<b>150,350</b>

# Gann Appropriation Limit FY 2017/18

## Background

Article XIII-B of the California State Constitution (also known as Proposition 4, or the "Gann Initiative", restricts the total amount of appropriation allowed in any given fiscal year from the "proceeds of taxes."

### Changes made:

1980 - The State Legislature added Section 9710 to Government Code requiring the governing body of each local jurisdiction to establish, by resolution, an appropriation limit for the following year. The appropriations limit for any fiscal year was equal to the previous year's limit, adjusted for population changes and the change in the U.S. Consumer Price Index (or California per Capita Personal Income, if smaller). This statistical information is provided by the California Department of Finance every year.

1990 - California voters approved Proposition 111, amending Article XIII-B. A City may choose annual adjustment factor including growth in the California Per Capita Income or the growth in the non-residential assessed valuation due to construction within the City, and the population growth within the City. Article XIII B originally required that excess revenues received by the state and local governments be rebated to taxpayers in the following year. Proposition 111 instead provides that excess revenues be established over a two-year period, and that they be divided equally between rebates to taxpayers and Proposition 98 educational spending.

"Appropriations subject to limitation" of an entity of local government means any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of state subventions to that entity (other than subventions made pursuant to Section 6)\* exclusive of refunds of taxes.

## Calculation

Appropriation Limit for FY 2016/17		\$1,692,660
Adjustment Factors	(% Ratio)	
Population Factor	1.0048	
Growth Factor	1.0369	
Calculation of Factors for FY 2017/18		1.0419
Appropriation Limit for FY 2017/18		\$1,763,544

# Staffing Level and Salary Range

City of Hidden Hills

Listing of Full-Time Positions

<b>Position</b>	<b>Salary Range</b>
City Manager	\$122,500 (Per Contract)
City Clerk	\$70,000 - \$90,000 annually (exempt)
Accounting Specialist	\$25.19 to \$37.70 per hour (non-exempt)

## **Special Revenue & Restricted Funds**

Special revenue funds are used to account for the proceeds from specific revenue sources (other than trusts or major capital projects) that are legally restricted to expenditures for specific purposes. These restricted funds, by law, are designed to finance particular functions or activities of government and which therefore cannot be diverted to other uses.

### **GAS TAX FUND**

The Gasoline Tax (Motor Vehicle Fuel License Tax) is allocated to cities based on population. The use of revenue is restricted to the construction, improvement and maintenance of public streets.

Fund Balance as of April 30, 2017 - \$436,203

### **TRAFFIC SAFETY FUND**

Fines and forfeitures received as a result of arrests for vehicle code violations. Funds can be used for traffic control devices, maintenance of equipment and supplies for traffic law enforcement and traffic accident prevention, improvement or construction of public streets, and the compensation of school crossing guards.

Fund Balance as of April 30, 2017 - \$12,819

### **TRANSIT/PROP A FUND**

A Tax imposed by Los Angeles County which increased the sales tax 1/2 cent to fund public transportation in the County. The use of this fund is restricted to public transportation services.

Fund Balance as of April 30, 2017 - \$50,386

### **PROP C FUND**

Same as Prop A but this fund can be used for both public transportation services and capital improvement projects for public transit including street and landscape maintenance and irrigation.

Fund Balance as of April 30, 2017 - \$122,009

### **MEASURE R LOCAL & MEASURE R HIGHWAY**

Measure R is a half-cent sales tax for Los Angeles County to finance roadway improvements or new transportation projects and programs, and accelerate those already in the pipeline.

Fund Balance as of April 30, 2017 - \$46,847 - Measure R Local

Fund Balance as of April 30, 2017 - 976,393 - Measure R Highway

#### **MEASURE M LOCAL & MEASURE M HIGHWAY**

Measure M is a half-cent sales tax for Los Angeles County to finance traffic improvement plan. It aims to improve freeway traffic flow and reduce bottlenecks and improve neighborhood streets and intersections. Funding is expected to start on September 2017.

#### **CAL RECYCLE FUND**

Cal Recycle purpose is to address issues related to sources reduction of waste material, recycling and composting, and environmentally safe transformation and land disposal of solid waste.

Fund Balance as of April 30, 2017 - \$44,997

#### **AIR QUALITY IMPROVEMENT FUND**

30 percent of the funds collected from the Department of Motor Vehicle registration fees is provided to the Air Quality Management District (AQMD) for vehicle emission reduction programs. This fund can be used to purchase or lease hybrid and CNG vehicles including purchase of fuel and maintenance associated with the use of these vehicles.

Fund Balance as of April 30, 2017 - \$52,811

#### **STPL FUND**

The Surface Transportation Program (STP) provides flexible funding that may be used by localities for projects to preserve and improve the conditions and performance on any Federal-aid highway, bridge and tunnel projects on any public road, pedestrian and bicycle infrastructure, and transit capital projects, including intercity bus terminals.

Fund Balance as of April 30, 2017 - \$32,960

#### **COPS FUND**

AB 3229 established the Citizen's Options for Public Safety (COPS) program and allocated state funds, based on population, to supplement the needs of local law enforcement. This fund is to be used for front line policing services.

Fund Balance as of April 30, 2017 - \$97,560

### Special Revenues and Restricted Funds Matrix

Fund Account	Current Balance as of 5/1/17	Proposed For Use In FY 17/18	Description	Previous and Current Projects Utilized	Use on HHCA Streets or Private Property	Option to Sell/Trade
Gas Tax	436,203.00	7,000.00	Annual Restricted Fund	Round Meadow widening; Resurfacing of Spring Valley, Long Valley, and Round Meadow; Round Meadow/Mureau corner park and landscaping project	No	?
Traffic Safety	12,819.00	2,000.00	Annual Restricted Fund	Citywide striping and signage; crossing guards	Yes	No
Prop A	50,386.00	-	Annual Restricted Fund	Summer Beach Bus (Calabasas). Previously sold to Santa Fe Springs, West Hollywood, Torrance, PV Peninsula Transportation Authority. Note: cannot be used for stops on HHCA roads.	No	Yes
Prop C	122,009.00	9,000.00	Annual Restricted Fund	Resurfacing of Long Valley, Round Meadow, Spring Valley; Irrigation and maintenance of Round Meadow/Mureau corner landscaping (both inside and outside street ROW)	No	No
Measure R Local	46,847.47	-	Annual Restricted Fund	Catch basin and C&G repairs; V-Calm signs	Yes	Can gift, trade, loan to other jurisdictions. No Compensation allowed.
Measure R Highway	976,393.50	2,200,000	Allocated through Las Virgenes Malibu COG on a per project basis	Long Valley Ramp Improvements	No	Can gift, trade, loan to other jurisdictions. No Compensation allowed.
Cal Recycle Grant	44,997.00	44,997.00	Competitive grant	Proposed to be used for the installation of catch basin screens and inserts citywide	Yes	No
Air Quality Improvement	52,811.00	-	Annual Restricted Fund	Proposed uses are for electric vehicle and charging stations	Yes	No
STPL	32,960.00	-	Annual Restricted Fund	Previously used to resurfacing Spring, Long Valley, Round Meadow; Round Meadow widening; Resurface City Hall parking lot utilizing STPL-L (flexible)	Only when STPL-L (flexible)	No
COPS	97,560.00	140,000.00	Annual Restricted Fund	Used to supplement law enforcement services (Approximately \$100,000 per year)	Yes	No
LA County Park and Open Space District	19,122.67	5,000.00	Annual Restricted Fund	City Hall Demonstration garden (landscaping, furniture, gazebo, stairway, bicycle racks, drinking fountain, etc.) construction, maintenance, and irrigation	Yes	No
TDA Bicycle/Pedestrian	20,873.00	-	Annual Restricted Fund	Round Meadow/Mureau corner park and landscaping project	No	No
Rule 20A	11,747.00	-	Annual Restricted Fund	Utility undergrounding on Round Meadow at Long Valley gate and at the Round Meadow/Long Valley Road Intersection	Yes	Yes

# Statement of Investment Policy

Fiscal Year 2017/2018

## 1.0 Policy:

This Investment Policy applies to the City of Hidden Hills ("City"). It is the policy of the City to protect, preserve and maintain its respective assets. The City shall invest public funds in a manner that will provide the highest investment return commensurate with maximum security, while meeting the respective cash flow demands of the City and conforming to all State and Local statutes governing the investment of public funds.

## 2.0 Scope:

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by outside fiscal agents under the provisions of bond indentures, or other funds as designated by the City Council or the City Treasurer. Funds contained in the City's pool are designated as "General Portfolio". This investment policy applies to the investment of surplus funds contained in the "General Portfolio". These funds are accounted for in the Annual Financial Statements and include:

- The General Fund
- All Special Revenue Funds
- All Trust and Agency Funds

## 3.0 Prudence:

The City is held to the prudent investor standard set forth in Section 53600.3 of the Government Code which states: "When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims to safeguard the principle and maintain the liquidity needs of the agency."

Accordingly, this is the standard of prudence to be used and applied by the City Treasurer (and other persons under the supervision and responsibility of the Treasurer pursuant to Section 5.3) to manage the City's investment portfolio, per the delegation of authority by the City Council to the Treasurer set forth in Section 5.3 of this Investment Policy.

It is the City's full intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars. However, it is realized that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized, that in a well diversified investment portfolio, occasional measured losses are inevitable due to economic, bond market or individual security credit analysis. These occasional losses must be considered within the context of the overall investment program objectives and the resultant long term rate of return.

## 4.0 Objectives:

The cash management system of the City is designed to accurately monitor and forecast expenditures and revenues, thus ensuring the investment of monies to the fullest extent possible. The City strives to maintain the level of investment of surplus funds as near to 100% as possible. Consistent with this factor, investments are made under the terms and conditions of Articles 1 (commencing with Section 53600) and 2 (commencing with Section 53630) of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government Code of California. Consistent with Government Code Section 53600.5, the primary objectives, in priority order, of the investment activities of the City shall be:

**4.1. Safety:** Safety of principal is the foremost objective of the investment program. "Safety" means that the overall value of invested public funds shall not be diminished in the process of securing and investing those funds or over the duration of the investments. To attain this objective, portfolio diversification is required.

**a. Reduction of Credit Risk:** Credit risk is defined as the risk of loss due to failure of the issuer of a security. This risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the City's capital base and cash flow.

**b. Reduction of Market Risk:** Market risk is defined as market value fluctuations due to overall changes in the general level of interest rates. This risk shall be mitigated by limiting the average maturity of the City's investment portfolio to two years, the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long term securities for the sole purpose of short term speculation.

**4.2. Liquidity:** The investment portfolio of the City will remain sufficiently liquid to enable such agency to meet all operating requirements of such agency which might be reasonably anticipated. Additionally, since all possible cash demands cannot be anticipated, a large portion of the securities held should be those for which active secondary markets exist. The liquidity of each type of authorized investment is included in its description in Section 8 "Authorized and Suitable Investments" section of this policy.

**4.3. Return on Investment (Yield):** The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of such portfolio.

In general, the California Government Code limits authorized investments to those classes of securities which have lower risk (and therefore lower yields) than other higher risk investment choices. In each investment transaction the anticipated return on investment is subordinate to the preceding requirements of safety and reduction of credit and interest rate risk

## **5.0 Delegation of Authority:**

Authority to manage the investment program of the City is derived from Government Code Sec. 53601 and 53607 (which respectively authorize a legislative body to invest public funds, and the legislative body's delegation of such authority to the treasurer of the corresponding agency) and the City's Municipal Code.

**5.1 Responsibilities of the City Council.** The City Council shall consider and adopt yearly a written investment Policy. As provided in this policy, the Council shall receive and review quarterly Investment Reports.

**5.2 Responsibilities of the City Manager.** The City Manager is responsible for supervising the City Treasurer. The City Manager is also responsible to keep the City Council fully advised of the investment portfolio and as to the financial condition of the City.

**5.3 Responsibilities of the City Treasurer.** Pursuant to Government Code Section 53607, the City Council delegates the authority to invest or reinvest surplus funds, and to sell or exchange securities so purchased for and on behalf of the City, to the City Treasurer for the one-year period commencing from the date of adoption of this Investment Policy, and the City Treasurer shall make a monthly report of those transactions to the City Council.

No person may engage in an investment transaction except as provided under the terms of this policy. The City Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of investment advisors. The City Treasurer is charged with responsibility for the conduct of all treasury functions, including the custody and investment of City funds, the development of procedures to implement this Investment Policy, and the rendering of the monthly transactions reports and quarterly investment reports (containing such information as specified in Section 15.0) required by this policy.

## **6.0 Ethics and Conflicts of Interest:**

Officers and employees involved in the investment process are required by the City of Hidden Hills Conflict of Interest Policy and State Government Code Section 81000 to disclose annually to the City Council any material financial interests in financial institutions that conduct business within the City and further to disclose any large personal financial/investment positions that could be related to the performance of the City, particularly with regard to the time of purchase and sales, as part of the City's conflict of interest reporting requirements.

## **7.0 Authorized Financial Dealers, Institutions and Portfolio Managers:**

The City Treasurer will maintain a list of financial institutions authorized to provide investment services, including portfolio management. The City Treasurer will exercise prudence in the selection of any portfolio managers, provide suitable safeguards to prevent abuse in the exercise of discretion by a portfolio manager, and will remain responsible for any investment decisions made by the portfolio manager. In addition, a list will also be maintained of security broker/dealers approved to provide direct services to the City. These broker/dealers shall be selected by credit worthiness and be authorized to provide broker-dealer services in the State of California. In addition, broker dealers selected for the list shall meet the requirements of Government Code Section 53601.5 (which currently requires that they be one of the following: (i) an institution licensed by the state as a broker-dealer, as defined in Section 25004 of the Corporations Code, (ii) a member of a federally regulated securities exchange, (iii) a national or state-chartered bank, (iv) a savings association or federal association (as defined by Section 5102 of the Financial Code), or (v) a brokerage firm designated as a primary government dealer by the Federal Reserve Bank). These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15c3-1 (uniform net capital rule), so long as such dealers also meet one of the foregoing criteria of Government Code Section 53601.5. No public deposit shall be made except in a qualified public depository and pursuant to the collateralization (or federal insurance) and depository contract requirements as established by state law (including, without limitation, Article 2 (commencing with Section 53630) of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government Code). Financial institutions authorized to provide investment services to the City, including portfolio management, shall utilize security broker/dealers who are duly licensed and authorized to provide investment services in the State of California and otherwise meet one of the requirements of Government Code Section 53601.5 but shall not be limited to the list of approved broker/dealers maintained by the City.

Anyone providing financial services to the City, including portfolio management, must adhere to the investment policies of the City as adopted annually by the City Council.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions, including portfolio management, must supply the City Treasurer with the following:

- Audited financial statements for the institutions three most recent fiscal years;
- Proof of Financial Industry Regulatory Authority (FINRA) registration;
- Proof of State registration; and
- Certification of having read and understood the investment policy and the depository contracts of the City.

A current audited financial statement is required to be on file for each financial institution, broker/dealer and portfolio manager with which the City invests.

Selection of financial institutions and broker/dealers authorized to engage in transactions with the City shall be at the sole discretion of the City. An annual review of the financial condition of qualified bidders will be conducted by the City Treasurer.

## **8.0 Authorized and Suitable Investments:**

Investable funds, which include funds not needed for the immediate needs of the City, are determined by the City Treasurer. Notwithstanding, one year's anticipated revenues shall be invested in Local Agency Investment Funds administered by the State Treasurer's Office pursuant to the authority conferred by Government Code Section 16429.1. All other investments shall be made in accordance with Sections 53600 et seq., of the Government Code. If not otherwise specified herein, the maximum term or remaining maturity shall be as specified in Section 11.0 of this policy. Within the context of limitations, the following investments are authorized, as further limited herein by this Policy and subject to the portfolio concentration limits set forth herein and in Table 1, appended to this policy:

**8.1 U.S. Treasury Bonds, Notes & Bills and "Strips"** - United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

In addition, through the commercial book-entry system, a Treasury fixed-principal note or bond or a Treasury inflation-protected security may be stripped, and each interest payment and the principal payment becomes a separate security (also known as Separate Trading of Registered Interest and Principal of Securities or "STRIPS"). Each component has its own identifying number and can be held or traded separately. Broker/dealers may market the principal portion of these "stripped" securities or "Strips" at deep discounts. In accordance with Government Code Section 53601.6, interest-only Strips are not authorized for the City. However, principal-only Strips (also known as "zero-coupon Treasury securities" or "Discount Notes") are authorized investments, if they meet the requirements of Government Code Section 53601.6(b), which specifies that a local agency shall not invest any of its surplus funds in any security that could result in zero interest accrual if held to maturity.

**8.2 Federal Agency Obligations or United States Government-Sponsored Enterprise (GSE) Obligations** – Federal agency or United States government-sponsored enterprise (GSE) obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. As to GSEs, there are numerous government-sponsored enterprises which issue debt instruments, but many lack the liquidity necessary to fit the portfolio requirements of the City. Purchases of government-sponsored enterprise securities should be limited to the issues of the Government National Mortgage Association, the Federal Farm Credit Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank.

To the extent the investment is (a) a mortgage-pass through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond and (b) not fully guaranteed as to principal and interest by federal agencies or a GSE, the investment shall also meet the criteria specified in Section 8.6 of this policy.

**8.3 Repurchase Agreements** - A repurchase agreement is a contractual agreement between a financial institution or dealer and the City by which the City purchases securities from a counterparty seller, the counterparty seller agrees to repurchase the securities on or before a specified date and for a specified amount, and the counterparty delivers the underlying securities to the City by book entry, physical delivery, or by third-party custodial agreement. Repurchase agreements authorized by this section shall not exceed 20 percent of the City's surplus moneys that may be invested pursuant to this policy.

Repurchase agreements may only be made with primary dealers of the Federal Reserve Bank of New York. The City will not enter into repurchase agreements for a period greater than 7 days. The market value of the securities that underlie a repurchase agreement will not be less than the greater of (a) 102% of the funds borrowed by the counterparty seller against those securities or (b) the sum of the funds borrowed by the counterparty seller against the securities plus accrued interest. And, the securities will be only treasuries meeting the requirements of Section 8.1 of this policy and agencies of the United States government meeting the requirements of Section 8.2 of this policy.

**8.4 Medium term corporate notes or bonds** (rated A or above by a nationally recognized statistical rating organization (NRSRO)) – all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by

depository institutions licensed by the United States or any state and operating within the United States may be bought only through major banks or primary dealers which offer competitive secondary markets for the purchase or sale of the notes before maturity, such as Bank of America, Goldman Sachs, and J. P. Morgan. Purchases of medium term corporate notes or bonds shall not exceed 30 percent of the City's surplus moneys that may be invested pursuant to this policy.

**8.5 Commercial paper** - (which must have a rating of the highest ranking or of the highest letter and number rating as provided for by a NRSRO (e.g., A1 (S&P) or P1 (Moody's)) - may be bought through major banks or primary dealers which can offer or arrange competitive secondary markets for the purchase or sale of the paper before maturity. The longest maturity approved for commercial paper is 270 days.

The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or (b):

a. The entity (i) is organized and operating in the United States as a general corporation; (ii) has total assets in excess of five hundred million dollars (\$500,000,000); and (iii) has debt other than commercial paper, if any, that is rated "A" or higher by an NRSRO.

b. The entity (i) is organized within the United States as a special purpose corporation, trust, or limited liability company; (ii) has program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or a surety bond; and (iii) has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

The City may invest no more than 25 percent of its moneys in eligible commercial paper. The City may not purchase more than 10 percent of the outstanding commercial paper of any single issuer.

**8.6 Mortgage-backed securities** - a mortgage-pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond with a fixed coupon issued by an agency of the U.S. government or a GSE, provided that the stated final maturity of such security does not exceed five (5) years from the date of purchase. To be eligible, the issuer of such security, obligation, bond, or certificate must have an A or higher rating for the issuer's debt as provided by an NRSRO, and the security, obligation, bond, or certificate itself must be rated in a rating category of AA or its equivalent or better by an NRSRO. Purchases of securities, obligations, bonds, or certificates authorized by this section shall not exceed 20 percent of the City's surplus moneys that may be invested pursuant to this policy.

**8.7 Negotiable Certificates of Deposit (CDs) or Non-negotiable, FDIC-insured CDs or Time Deposits** with fixed coupons and fixed maturity date which may not exceed five (5) years and are issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of CDs and time deposits shall not, in total, exceed 30 percent of the City's funds that may be invested pursuant to this policy.

**8.8 Local Agency Investment Funds (LAIF)** administered by the State Treasurer's Office.

**8.9 Passbook accounts** maintained solely to provide for ongoing operational needs shall not exceed the maximum amount insured by the FDIC and shall be subject to the requirements of this policy.

**8.10 Shares of Beneficial Interest Issued by a Joint Powers Authority** - the joint powers authority must be organized pursuant to Government Code Section 6509.7 and invest in the securities and obligations authorized for local agency investment by Government Code Section 53601.

To be eligible, the joint powers authority issuing the shares (each of which shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority) shall have retained an investment adviser that (i) is registered or exempt from registration with the U.S. Securities and Exchange Commission; (ii) has not less than five years of experience investing in the securities and obligations authorized for local agency investment by Government Code Section 53601; and (iii) has assets under management in excess of five hundred million dollars (\$500,000,000).

**8.11 State and Local Agency Bonds, Warrants and Treasury Notes** (rated “BBB” or above (or equivalent) by a NRSRO before insurance). The following may be purchased except that the remaining term to maturity at the time the investment is purchased cannot exceed five years.

a. Registered state warrants or treasury notes or bonds of the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State of California or by a department, board, agency, or authority of the State of California.

b. Registered treasury notes or bonds of any of the other 49 states in the U.S., including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states in the U.S.

c. Bonds, notes, warrants, or other evidences of indebtedness of a local agency within the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

No more than 5 percent of the City’s funds that may be invested pursuant to this policy shall be invested in bonds, warrants, notes, or other evidences of indebtedness of a single local agency within the State of California or of a single state. For purposes of the foregoing limitation, bonds, warrants, notes, or other evidences of indebtedness of a related entity of a local agency or state shall be included in the calculation with respect to moneys invested in such local agency or state.

Also, no more than 15% of the City’s funds that may be invested pursuant to this policy shall be invested in bonds, warrants, notes, or other evidences of indebtedness (of states within the U.S. and/or California local agencies) that have been assigned a rating within the “BBB” (or equivalent) rating category (i.e., “BBB” or “BBB+”. “BBB-“ rated obligations are below the minimum eligible rating of “BBB”).

**8.12 Shares of Beneficial Interest Issued by “Money Market Funds”** – shares of beneficial interest issued by diversified management companies that are money market funds registered with the U.S. Securities and Exchange Commission under the Investment Company Act of 1940.

To be eligible, the investment company (i.e., money market fund) must meet either of the following criteria: (a) attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs, or (b) retained an investment adviser registered or exempt from registration with the U.S. Securities Exchange with not less than five years’ experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). The shares authorized by this section must be of the type sold without any sales commission or sales charge of any kind (true no-load funds). Purchases of money market fund shares shall not exceed 20 percent of the City’s moneys that may be invested pursuant to this policy.

**8.13 Other Investment Guidelines:**

**Securities** may be sold at a loss in order to improve the risk or return characteristics of the portfolio, to prevent anticipated further erosion of principal or when trading for securities that result in an expected net economic gain to the City. If securities owned by the City are downgraded by both Moody's and S&P to a level below the quality required by this Investment Policy, it shall be the City's policy to sell such securities promptly.

**Exemptions** - Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

**Prohibited Investments** - The list of eligible securities contained in the California Government Code is extensive and includes a number of categories which are not suitable investments for funds of the City. The categories in the list which have such limitations are as follows:

The City shall not invest any funds pursuant to Section 53600, et. seq., in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

#### **9.0 Collateralization:**

All investments of the City shall be collateralized to the extent required by the State Government Code. (E.g., repurchase agreements, and deposits exceeding the maximum amount insured by the FDIC.)

The collateral for deposits exceeding the maximum amount insured by the FDIC in local savings associations is held at the Federal Home Loan Bank of San Francisco. The collateral for such deposits in local banks is held in the City's name in the trust department of one of the banks with which the City has a current safekeeping agreement (so long as the issuer of the deposit is not the same bank as the bank holding the collateral) and is authorized pursuant to Government Code Sections 53656(b) and 53657 by the Administrator of Local Agency Security designed by Government Code Section 53661 (presently, the Commissioner of Business Oversight) or with the Federal Reserve Bank of San Francisco.

Acceptable collateral instruments are U.S. Treasury or Federal Agency or GSE issues of the types authorized by Government Code Sections 53651(a) and 53651(f), respectively, equal in market value to at least 110% of the deposit of the City. Alternatively, prime seasoned first trust deeds meeting the requirements of Government Code Section 53651.2 and equal in value to at least 150% of the deposit of the City may also be placed by savings associations with the Federal Home Loan Bank of San Francisco to cover collateral requirements for City deposits.

Securities which serve as collateral for repurchase agreements with banks may be held in the issuing bank's trust department, provided that a master repurchase agreement has been executed ensuring the fiduciary separation of these assets from other bank assets.

#### **10.0 Safekeeping and Custody:**

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian and evidenced by safekeeping receipts. Pursuant to Government Code Section 53608, the third party custodian shall be a federal or state association (as defined by Section 5102 of the Financial Code), a trust company or a state or national bank located within the State of California, the Federal Reserve Bank of San Francisco or any branch thereof within the State of California, or any Federal Reserve Bank or any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System.

The transferring of investment funds will be carried out exclusively by use of the Federal Reserve Bank's electronic wire transfer system. Each Banker or Primary Dealer with which the City does business shall receive in writing from the City Treasurer and City Manager or designee a listing which limits transfers of funds to pre-authorized bank accounts only.

The listing will also contain the names of the City staff authorized to request such transfers and will be updated in writing for changes of authorized staff and bank accounts as necessary.

Transfers from one account of the City to another shall require the request of only one authorized staff member. Transfers from the City's account to third parties shall require the request of two authorized staff members.

#### **11.0 Maximum Maturities:**

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Pursuant to Government Code Section 53601, if not otherwise specified herein, no investment shall be made in any security, other than a security underlying a repurchase agreement authorized by Section 8.3, that at the time of the investment has a term remaining to maturity in excess of five (5) years from the date of purchase, unless the City Council has granted express authority to make that investment either specifically or as a part of an investment program approved by the City Council no less than three months prior to the investment.

**12.0 Internal Control and Audits:**

The City Treasurer shall establish an annual process of independent review by an external auditor. This review may be part of the City's annual financial audit performed by an independent certified public accountant which is designed to meet the requirements of the federal Single Audit Act of 1984 and related Office of Management and Budget Circular A-128 or at any other time as determined by the City Treasurer.

**13.0 Reporting and Investment Policy Adoption:**

The City Treasurer in conjunction with the City Manager and City Attorney shall review and update this Investment Policy annually and present the written, updated policy to the City Council, for consideration and adoption as provided in Government Code Section 53646 et al.

**14.0 Interest Earnings:**

All moneys earned and collected from investments authorized in this policy shall be allocated yearly to various fund accounts based on the monthly cash balance in each fund as a percentage of the entire pooled portfolio.

**15.0 Reporting and Reviews:**

The City Treasurer shall make a monthly report to the City Council of the transactions to invest or reinvest surplus funds, and to sell or exchange securities so purchased for and on behalf of the City, in compliance with California Government Code Section 53607.

The City Treasurer shall review and render quarterly reports to the City Manager and City Council in compliance with California Government Code Section 53646(b). These reports will include the face amount and the purchase price of the cash investment, the classification of the investment, the name of the issuer institution or entity, the rate of interest, the maturity date, the current market value and accrued interest due for all securities.

The quarterly report will include a statement of the portfolio's compliance with the City's investment policy and a statement denoting the City's ability to meet its expenditure requirements for the next six months. Additionally and if applicable, the report will include the amount held by the City's deferred compensation administrator(s).

**16.0 Legislative Changes:**

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the City of Hidden Hills' Investment Policy and supersede any and all previous applicable language.

**17.0 Investment Policy Adoption:**

The City's Investment Policy shall be adopted by Resolution of the City Council on an annual basis. This Investment Policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to City Council for approval.

**TABLE 1**

<b>Investment Type:</b>	<b>Dollar or Percent Limits</b> (calculated separately for each agency's portfolio)	<b>Maturity</b> (Not to Exceed)	<b>Liquid</b>
<b>1. General Instruments</b>			
State Investment Fund (LAIF)	The maximum set by LAIF	On demand	Yes
U.S. Treasury Bonds, Notes & Bills	None	5 yrs.	Yes
Federal Agency or U.S. Government Sponsored-Enterprises	None (subject to Sections 8.2 and 8.6 (mortgage-backed securities) of the investment policy)	5 yrs.	Yes
Obligations of the State of California, any of the other 49 states, or any local agency of the State of California with a rating of "BBB" or above (or equivalent) before insurance.	5% of total portfolio with respect to obligations of a single local agency within the State of California or of a single state  15% of total portfolio with respect to obligations rated "BBB" or "BBB+" ("BBB-" is not eligible)	5 yrs.	Yes
<b>2. Collateralized Investments</b>			
Repurchase Agreements	20% of total portfolio	7 days	Yes
Deposit accounts	Amounts above FDIC-insurance must be collateralized	On demand	Yes
<b>3. Uncollateralized Instruments</b>			
Non-negotiable, FDIC-insured CDs or Time Deposits	30% of total portfolio*	5 years	No
Negotiable Certificates of Deposit (CDs)	30% of total portfolio*	5 years	Yes
Medium Term Corporate Notes* and Bonds*	30% of total portfolio**	5 years	Yes
Commercial Paper	25% of total portfolio	270 days	Yes
Mortgage-Backed Securities	Not to exceed 20%	5 yrs.	Yes
*Percent Limit (30% of total portfolio) is a collective limit as to Time Deposits, non-negotiable FDIC-insured CDs, and negotiable CDs.			
** Percent Limit is a collective limit as to Medium Term Corporate Notes & Corporate Bonds, which are governed by Gov. Code Sec. 53601(k).			
<b>4. Other Instruments</b>			
Shares of "money market funds" which are sold without any sales commission or sales charge of any kind (true no-load funds) and rated the highest ranking or highest letter and numerical rating provided by at least two NRSROs	20% of total portfolio	On demand	Yes
Shares of beneficial interest issued by a JPA	None	On demand	Yes

**CITY OF HIDDEN HILLS**  
**"FISCAL HEALTH REPORT"**  
**FOR THE PERIOD FROM**  
**2008 to 2017**

**I. OVERVIEW**

This "Fiscal Health Report" is a financial monitoring system that computes a number of "factors" and compares the results over time. Its purpose is to provide the City Council with a comprehensive look at the financial condition of the City over the previous ten-year period to help ensure the City's continued future fiscal health. Monitoring systems can give early warnings of trends before they become major problems.

**II. HOW THE SYSTEM WORKS**

The selected factors (see attached) are calculated over time and trends are established and graphed. Data for all factors has been extracted from annual audit reports from 2008 through 2016, and the latest year-end projections for revenues and expenditures account for the data reflected for 2017 (Fiscal Year 2016-17). In all cases, the information presented is for the General Fund only. Note that revenues and expenditures have not been adjusted for inflation and therefore do not represent constant dollar comparisons.

Trends are judged as favorable, stable or unfavorable. If a solid trend is not established, the factor may be rated as a combination such as stable/favorable or stable/unfavorable. Several factors use population as a component of the formula. The intent is to show if revenues and expenditures are keeping pace with population changes which might increase demand for services. While the City's population has historically been very stable, the per capita formula is still valid for purposes of establishing a relationship between the factors. Finally, it is also important to view the factors in relation to each other. Therefore, an unfavorable trend in expenditures combined with a favorable trend in revenues should not necessarily raise an immediate concern. On the other hand, stable or declining revenues combined with increasing expenditures could pose a problem in a very short time.

**III. FINDINGS**

In reviewing the findings reflected in the various factors, a total of four factors were judged as favorable, two were stable, one was stable/unfavorable, and one unfavorable as noted below:

<b>FACTOR</b>	<b>TREND</b>
#1 Revenue Per Capita	Favorable
#2 Property Tax Revenue Per Capita	Favorable
#3 Expenditure Per Capita	Stable/Unfavorable
#4 Public Safety Expenditure Per Capita	Stable
#5 Revenue & Expenditure Per Capita	Stable
#6 Population Growth	Favorable
#7 Building Permit Revenue as a % of Total General Fund	Favorable

#### **IV. CONCLUSIONS**

Several conclusions can be drawn from this year's fiscal health "report card." First, it is evident that the City's fiscal health remains strong. Also, it is noted that all but two of the seven categories are rated either "favorable" or "stable." The two exceptions involve expenditures per capita (see Factors #3) which have seen a slight increase due to increased water quality program expenditures, building department expense, and staffing transitions.

It should be noted that this Fiscal Health Report is the first of its kind for the City of Hidden Hills. Future reports will be refined with additional factors added to present a clearer picture of the City's position. Finally, continued scrutiny by the City Council, staff, and residents is imperative to ensure the fiscal health of the City for generations to come.

## FACTOR 1 - REVENUE PER CAPITA

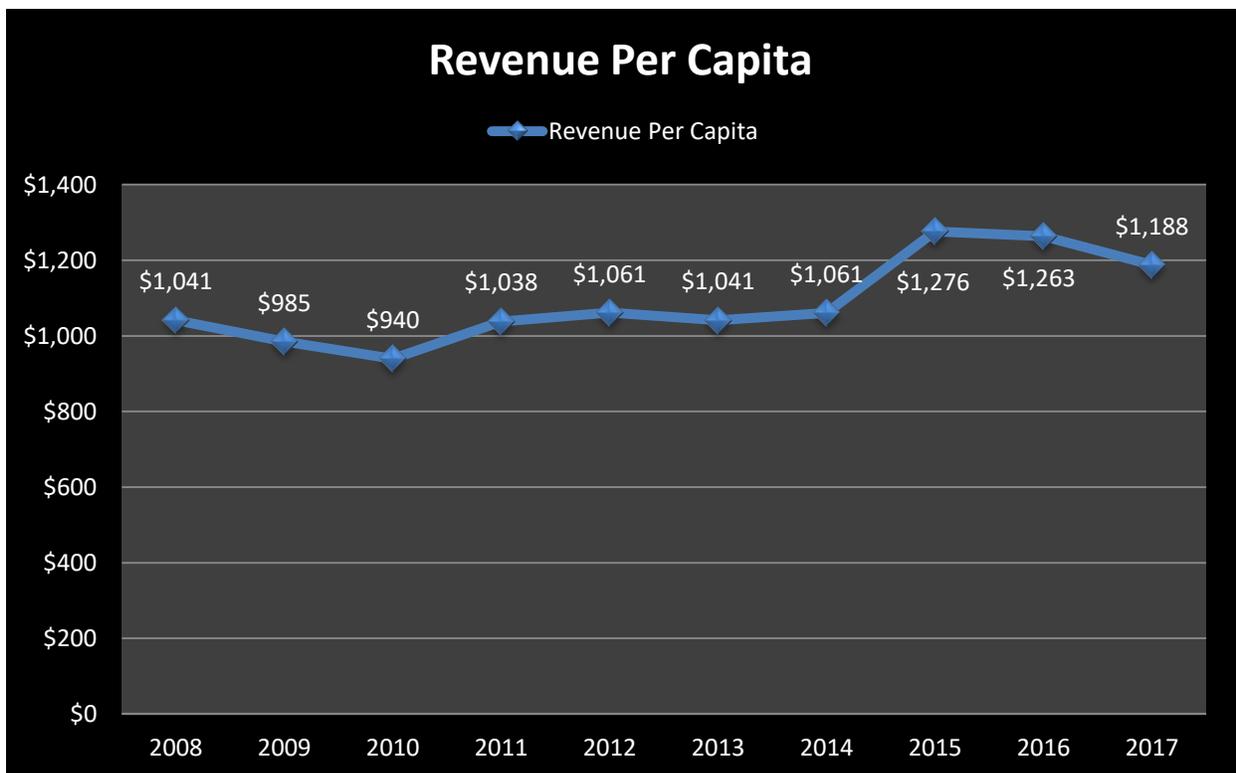
**DESCRIPTION** - This factor is designed to show whether revenues are keeping pace with expenditures, growth in the community, etc. For example, if revenues are decreasing, a municipality might not be able to maintain service levels unless new revenue sources are found. In the case of Hidden Hills, revenues per capita decreased in 2009 and 2010 during the recent recession. Revenue started to rebound in 2011. A slight uptick in 2015 and 2016 can be attributed to increased building activity in 2015 and rising home values.

While the City's population does not change dramatically, this factor examined in conjunction with expenditures per capita (see FACTOR 3) provides a relevant comparison of performance. This factor should be watched closely in relation to FACTOR 3.

**FORMULA** - 
$$\frac{\text{Total Operating Revenue}}{\text{Population}}$$

**WARNING SIGN** - Decreasing operating revenue per capita sustained over multiple years.

**TREND** - Favorable

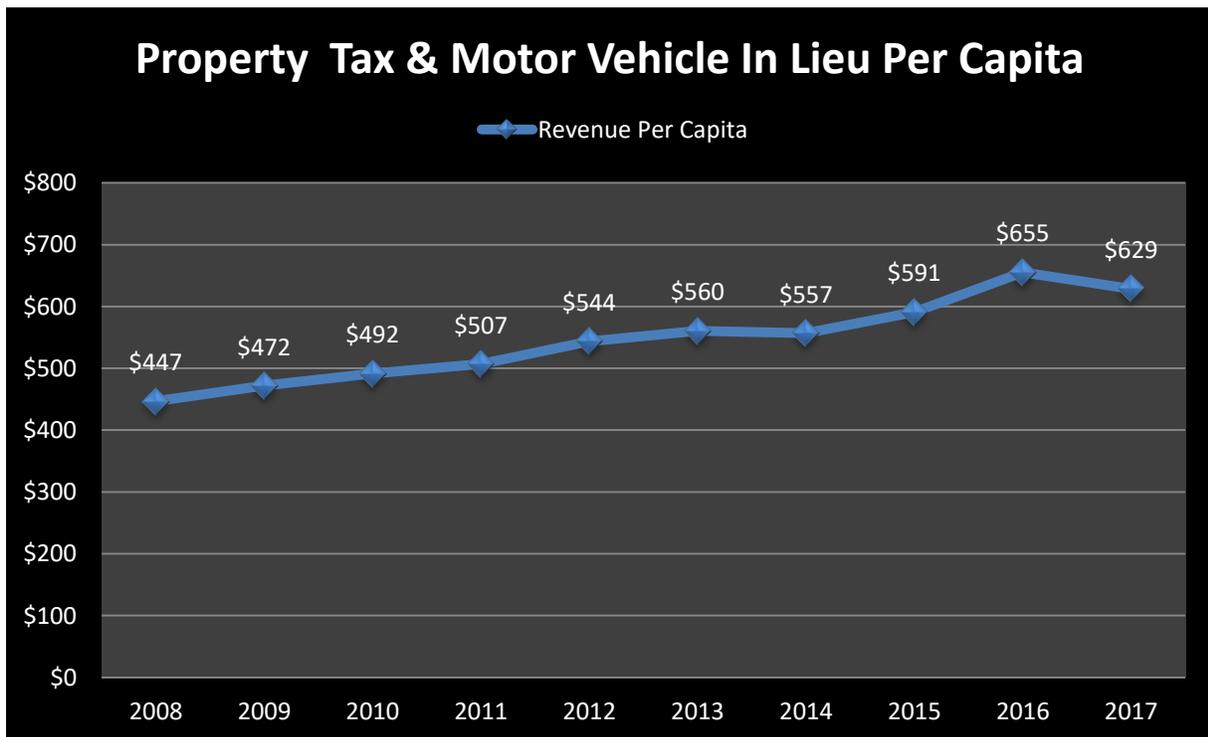


## FACTOR 2 – PROPERTY TAX/MOTOR VEHICLE IN LIEU PER CAPITA

**DESCRIPTION** - Since the property tax constitutes such a large percentage of the General Fund revenue, this factor is examined against City of Hidden Hills population. At a minimum, property revenue should not be decreasing when compared to population. Property tax and motor vehicle in lieu revenue is combined as in 2006, the State redirected a portion of property tax revenue to municipalities and “backfilled” those revenues with a portion of motor vehicle license fees. Known as the “triple flip” the City’s auditors combine these two revenue sources into the property tax line item each year. In the case of Hidden Hills slight growth each year indicates a favorable position. However staff should make it a practice to continually monitor this critical revenue source.

**FORMULA** - 
$$\frac{\text{Property Tax \& Motor Vehicle In Lieu Fees}}{\text{Population}}$$

**TREND** - Favorable



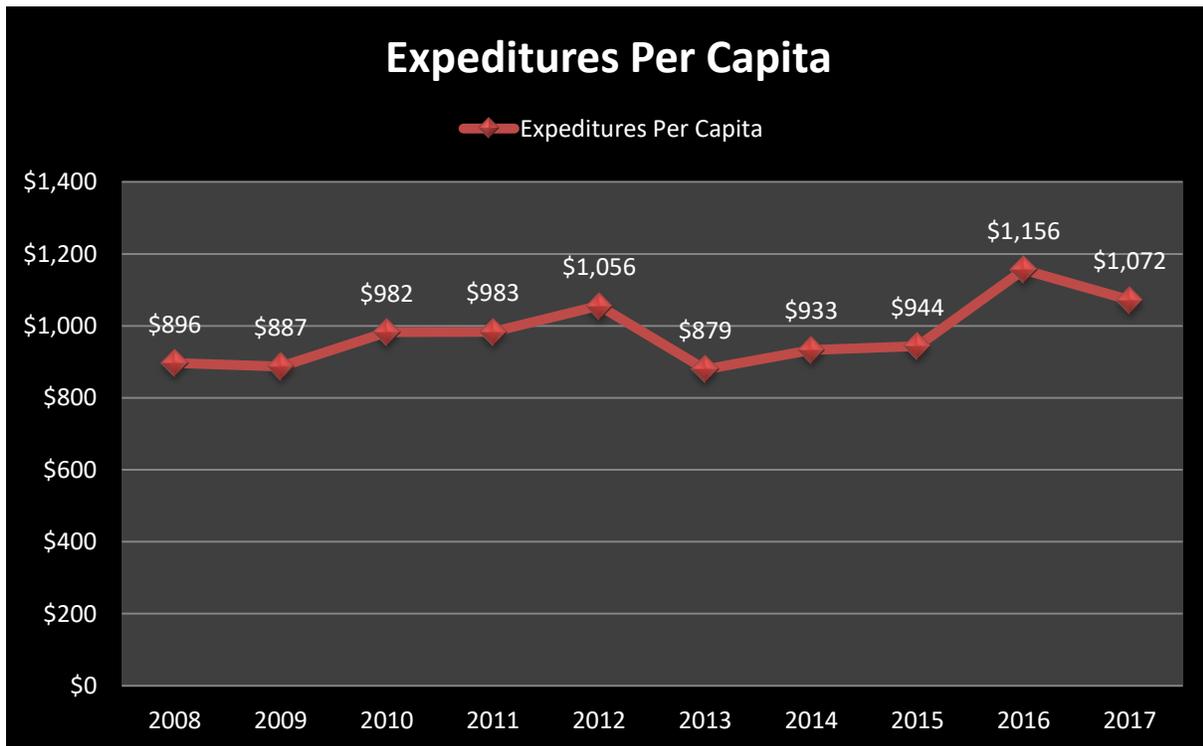
### FACTOR 3 – EXPENDITURES PER CAPITA

**DESCRIPTION** - This factor is designed to show the cost-per-person of providing City services. Increasing expenditures per capita are troublesome if revenues per capita are stable or declining. In the case of Hidden hills expenditures per capita have begun to “creep” up since a dip in 2013. While this increase can be attributed to several factors including: (1) increased building activity; (2) additional expenditures related to water quality mandates; and (3) increased staff costs related to the transition to the new City Manager, this factor should be monitored carefully especially in line with revenue per capita in the coming years.

**FORMULA** - 
$$\frac{\text{Total Operating Expenditures}}{\text{Population}}$$

**WARNING SIGN** - Significantly increasing operating expenditures per capita, especially when combined with a stable or unfavorable trend in **FACTOR 1 - Revenues Per Capita**.

**TREND** - Stable/Unfavorable



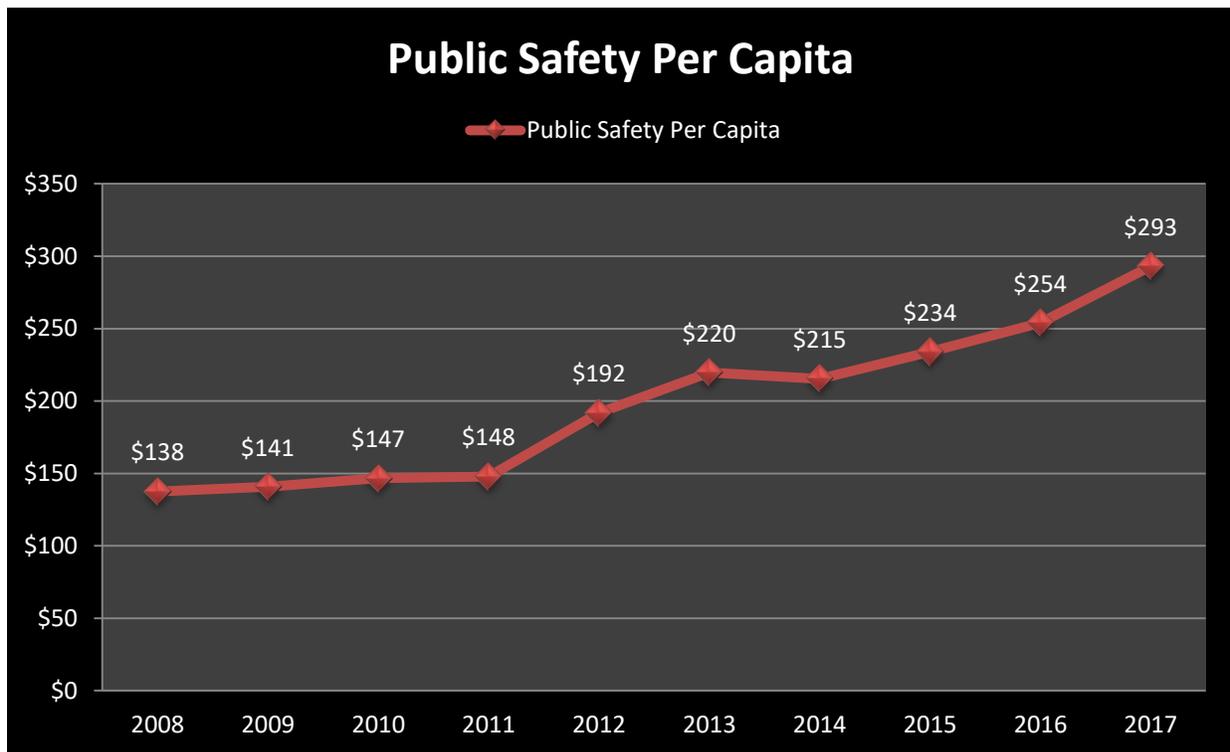
#### FACTOR 4 - PUBLIC SAFETY EXPENDITURES PER CAPITA

**DESCRIPTION** - Since public safety expenditures represent such a large portion of total operating expenditures, this item was examined separately. It should be noted that beginning in 2012, the City audit began to include restricted COPS funds in the overall public safety expenditure. It is believed that per capita spending in law enforcement prior to 2012 referenced in this chart does not include COPS funds. Beginning in the upcoming FY 2017/18 COPS Funds are shown in revenue and expenditure line items in an effort to show the true cost of law enforcement services. In addition to including law enforcement costs, Public Safety Expenditures per capita include costs associated with emergency preparedness, school crossing guards, and animal care and control. Increases in expenditures over the last ten years have been the direct result of modest county rate adjustments passed along to contract cities.

**FORMULA** - 
$$\frac{\text{Public Safety Expenditures}}{\text{Population}}$$

**WARNING SIGN** - Significantly increasing per capita expenditures.

**TREND** - Stable

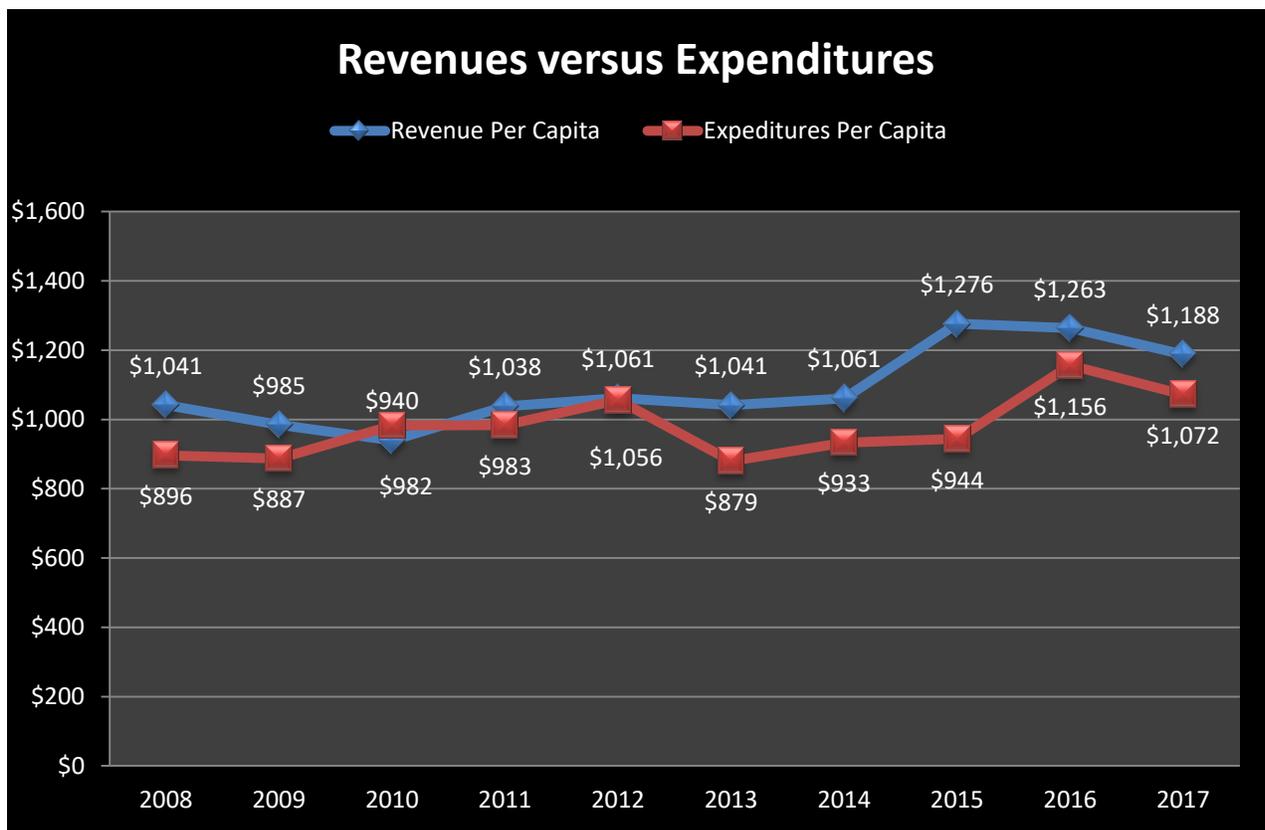


**FACTOR 5 - REVENUES AND EXPENDITURES PER CAPITA**

**DESCRIPTION** - This table shows Factors 1 and 3 combined and provide a graphic display of the relationship between the two. Beginning in 2008 revenues began to decline while expenses increased. Following 2012, when revenues and expenditures were approximately equal partially due to a \$200,000 Community Assistance Grant provided to the HHCA, expenditures dropped while revenues climbed. Although the 2017 projected revenue and expenditure relationship should be watched, those numbers are staff projections.

**WARNING SIGN** - Significantly increasing per capita expenditures combined with stable or declining per capital revenues.

**TREND** - Stable but should be monitored closely in light of staff 2017 projections.

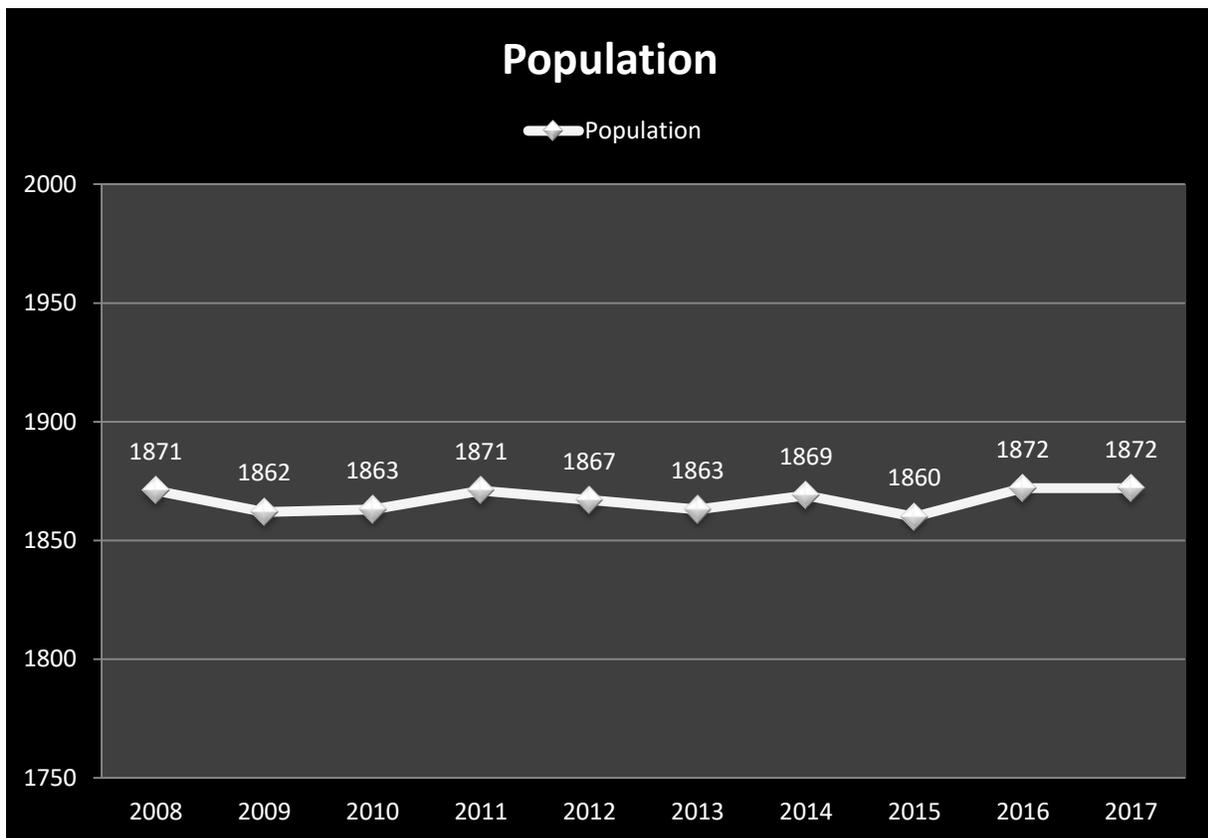


## FACTOR 6 - POPULATION GROWTH

**DESCRIPTION** - This table simply illustrates population growth based on both State Department of Finance (Population Research Unit) and the U.S. Department of Commerce, Bureau of Census and Neighborhood Statistics Program. For emerging or developing cities, population growth is usually a key contributor to an increase in service delivery costs. However, in Hidden Hill's case, population growth has been essentially flat for the past ten years.

**WARNING SIGN** - Increasing population and accompanying service demands in the face of static or declining General Fund Revenues.

**TREND** - Favorable



## FACTOR 7 - TOTAL BUILDING PERMIT REVENUE AS A PERCENTAGE OF TOTAL GENERAL FUND REVENUES

**DESCRIPTION** - This factor illustrates the effect on permit revenue related to declines in construction activity, and should be watched closely. The table below reflects a rather flat period of building permit revenue which can be attributed to the 2008 recession. Building activity began to rebound in 2012 while reaching a pinnacle in 2014. Although there are no signs of decreased building activity within the City (actually quite the contrary) and a high percentage of building related expense is tied directly to building revenue, close monitoring of building permit revenue should continue in relationship to overall City revenues.

**FORMULA** - 
$$\frac{\text{Total Permit Revenues}}{\text{Total General Fund Revenues}}$$

**WARNING SIGN** - Decreased revenue without corresponding decreases in expenditures.

**TREND** - Stable

